

THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY AND EXHIBITS

OF

MICHAEL L. SEAMAN-HUYNH

OCTOBER 26, 2012



DOCKET NO. 2012-218-E

**Application of South Carolina Electric & Gas
Company for Increases and Adjustments in
Electric Rate Schedules and Tariffs and Request
for Mid-Period Reduction in Base Rates for Fuel**

DIRECT TESTIMONY OF
MICHAEL L. SEAMAN-HUYNH
FOR
THE OFFICE OF REGULATORY STAFF
DOCKET NO. 2012-218-E

IN RE: APPLICATION OF SOUTH CAROLINA ELECTRIC & GAS COMPANY
FOR INCREASES AND ADJUSTMENTS IN ELECTRIC RATE SCHEDULES
AND TARIFFS AND REQUEST FOR MID-PERIOD
REDUCTION IN BASE RATES FOR FUEL

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND
OCCUPATION.

A. My name is Michael Seaman-Huynh. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as a Senior Electric Utilities Specialist in the Electric Department for the Office of Regulatory Staff (“ORS”).

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND
EXPERIENCE.

A. I received my Bachelor’s Degree from the University of South Carolina in 1997. Prior to my employment with ORS, I was employed as an energy analyst with a private consulting firm. I joined ORS in 2006 as an Electric Utilities Specialist and was promoted to Senior Electric Utilities Specialist in 2010.

Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE PUBLIC
SERVICE COMMISSION OF SOUTH CAROLINA?

1 A. Yes. I have previously testified on numerous occasions before the Public
2 Service Commission of South Carolina (“Commission”) in conjunction with fuel
3 clause and Utility Facility Siting and Environmental Protection Act proceedings.

4 Q. **WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
5 **PROCEEDING?**

6 A. The purpose of my testimony is to address certain areas of the Electric
7 Department’s examination of South Carolina Electric & Gas Company’s
8 (“Company” or “SCE&G”) Application for adjustments in its electric rate
9 schedules and tariffs and request for mid-period reduction in base rates for fuel
10 under Docket No. 2012-218-E (“Application”). My testimony will specifically
11 address the Company’s Cost of Service Study, depreciation rates, rate design, and
12 revenue verification and distribution. I will also address the Company’s request
13 for mid-period adjustments in base rates for fuel, as well as its request to update
14 its Demand Side Management (“DSM”) Rate Rider.

15

16

COST OF SERVICE STUDY

17 Q. **WHAT IS THE PURPOSE OF A COST OF SERVICE STUDY?**

18 A. The Company owns and operates an electric system which primarily
19 provides retail electric service to residential, general service, industrial and street
20 lighting customers, as well as wholesale customers. Each of these customer
21 classes receives varying types of service and contributes different load
22 characteristics to the system. The Cost of Service Study allocates – or directly
23 assigns – responsibility for the revenues, expenses and rate base items among the

1 individual customer classes. That is, the cost responsibility for expenses and rate
2 base items should be allocated to the customer class(es) that caused the cost to be
3 incurred. This allocation methodology is referred to as “cost causation.”

4 **Q. WOULD YOU PLEASE EXPLAIN THE MAJOR COMPONENTS OF A**
5 **COST OF SERVICE STUDY?**

6 **A.** The major components utilized in the development of a fully distributed
7 Cost of Service Study are functionalization, classification and allocation.
8 Functionalization is the process of categorizing cost according to its function,
9 which is either production, transmission or distribution. Classification is further
10 dividing these costs into the type of service they provide, namely demand, energy
11 or customer. The allocation of these costs is based upon the demand, energy or
12 customer costs incurred by the individual classes.

13 **Q. PLEASE DESCRIBE THE ALLOCATION METHODOLOGY USED BY**
14 **THE COMPANY IN ITS COST OF SERVICE STUDY.**

15 **A.** The Company filed its study based on the summer Four Hour Coincident
16 Peak Demand, a methodology which it has used since 1976 and which has been
17 consistently approved by this Commission. Allocation factors for the demand
18 related costs are two-fold. The class coincident peak (“CP”) allocator was
19 developed based on the system territorial peak demand between the hours of 2
20 p.m. and 6 p.m. on the territorial peak day, which occurred on August 8, 2011.
21 The CP allocator was used for the allocation of production and transmission
22 investments to customer classes. The class non-coincident peak (“NCP”)
23 allocator was developed based on the peak demands of each customer class

1 whenever they occurred during the test year. The NCP allocator was used for the
2 allocation of demand related distribution investments and expenses to customer
3 classes. The CP and NCP demand allocation methodology generally reflects how
4 costs are incurred by the Company to meet the demands customers place on the
5 Company's system. The energy related allocation factors were based on the
6 annual kilowatt hour ("kWh") sales for each customer class for the test year,
7 adjusted for system losses. The energy allocation methodology generally reflects
8 the variable costs – such as fuel – incurred by SCE&G to meet each customer
9 class's energy consumption requirements placed on the Company's system
10 throughout the year. The customer related allocation factors were based on the
11 number of customers in each respective class and used to allocate costs such as
12 meters. In addition, costs such as extra facilities that were identified as being
13 attributable to a specific class of customer were directly assigned to that customer
14 class.

15 **Q. WHAT WERE THE FINDINGS OF ORS'S REVIEW OF THE**
16 **COMPANY'S COST OF SERVICE STUDY?**

17 **A.** ORS concluded that the methodology applied in constructing the
18 Company's Cost of Service Study provides a reasonable assessment and
19 allocation of the Company's revenues, operating expenses and rate base items,
20 which produces a rate of return by customer class.

21 **Q. DID ORS REVIEW THE DEPRECIATION RATES UTILIZED BY THE**
22 **COMPANY IN THIS CASE?**

1 A. Yes. ORS confirmed that the Company used the rates from its 2008
2 depreciation study approved by the Commission to determine the appropriate cost
3 levels for depreciation expense in its current filing. ORS's review found the study
4 results and methodologies were reasonable and consistent with other electric
5 utilities in the State previously approved by the Commission.

6
7 **RATE DESIGN**

8 **Q. DID ORS VERIFY THE REVENUE COMPUTATIONS USED IN**
9 **DETERMINING THE VARIOUS TARIFF INCREASES?**

10 A. Yes. ORS confirmed the test year billing determinants for each current
11 rate schedule as approved by the Commission. ORS also confirmed the use of
12 these determinants applied to the proposed rates. The difference in the revenue
13 generated by the current and proposed rates produces the revenue increase the
14 Company requested in this proceeding. This is a reasonable and appropriate
15 method for determining the accuracy of the proposed rates.

16 **Q. PLEASE DISCUSS THE REVENUE REQUIREMENTS AND HOW THEY**
17 **WERE DISTRIBUTED TO EACH CUSTOMER CLASS.**

18 A. The Cost of Service Study was utilized to determine the proper cost
19 allocation for each class; then, revenues were applied to bring the class returns
20 more in line with the overall rate of return. This is an appropriate and equitable
21 method for allocating revenue requirements and is accepted regulatory practice.

22 Based on ORS's audit adjustments and a 10.25% return on equity,
23 SCE&G's proposed revenue increase of \$151,502,000 is reduced by

1 approximately \$54.4 million or 36%. The revenue increases by customer class
2 are shown in Exhibit MSH-1. The net total increase after the fuel rate decrease
3 and DSM Rate Rider decrease is \$31,672,950. As shown in Exhibit MSH-2, ORS
4 allocated the increase to each customer class in a similar manner as provided in
5 the Company's Application with adjustments to attempt to bring the rates of
6 return for each customer class within a $\pm 10\%$ "band of reasonableness" relative to
7 the overall retail rate of return. ORS recommends that any increase granted be
8 allocated in this manner and that the revenues generated by the billing
9 determinants should not exceed the target revenue for each tariff as proposed in
10 Exhibit MSH-1.

11 Also shown in Exhibit MSH-1 are the net percent increases by customer
12 class. The retail increases by customer class proposed by ORS are as follows:
13 Residential, 1.80%; Small General Service, 0.08%; Medium General Service,
14 0.63%; Large General Service, 1.67%; and, Lighting, 3.45%. The overall total
15 retail increase is 1.38%.

16 **Q. HOW DOES ORS'S DISTRIBUTION OF THE REVENUE**
17 **REQUIREMENT IMPACT THE RATE OF RETURN BY CUSTOMER**
18 **CLASS?**

19 **A.** Exhibit MSH-2 provides ORS's proposed rate of return by customer class.
20 The returns by class are as follows: Residential, 7.70%; Small General Service,
21 9.79%; Medium General Service, 9.02%; Large General Service, 7.50%; and,
22 Lighting, 9.03%. The overall rate of return for total retail is 8.20%.

1 In developing Exhibit MSH-2, ORS limited cross-subsidization of
2 customer classes by employing a $\pm 10\%$ “band of reasonableness” relative to the
3 overall retail rate of return. ORS was successful in bringing all the customer
4 classes within this band except for the Small General Service class.

5 **Q. HAS THE COMPANY PROPOSED MODIFICATIONS TO ITS CURRENT**
6 **TARIFF STRUCTURE?**

7 **A.** Yes. The Company proposes to increase the Basic Facilities Charge
8 (“BFC”) on all of its rates to better reflect actual Company costs to provide
9 service to its customers as described in Company witness Hendrix’s testimony.
10 ORS reviewed these modifications and found most of the modifications to be
11 reasonable; however, ORS recommends changes to help mitigate the impact of
12 rate increases on residential rates.

13 **Q. PLEASE ELABORATE ON ORS’S RECOMMENDATION.**

14 **A.** The Company proposes to increase the BFC on its residential rate
15 schedules 1, 2, 6 & 8 from \$8.50 to \$9.75 or approximately 14.7%, and on
16 residential rate schedules 5 & 7 from \$12.50 to \$13.75 or 10.0%. ORS
17 recommends any increase in the BFC for the residential tariffs be limited to \$0.50
18 or less. This is consistent with ORS’s recommendation and the Commission’s
19 approval in Docket Nos. 2009-489-E, 2010-181-E, and 2011-471-E.

20 **Q. HAS THE COMPANY PROPOSED ANY CHANGES TO ITS GENERAL**
21 **TERMS AND CONDITIONS?**

FUEL COST FACTORS

Q. WHAT SPECIFICALLY HAS SCE&G REQUESTED FOR ITS FUEL COST FACTORS IN THIS PROCEEDING?

1 **A.** SCE&G requests that the Commission approve a reduction in its currently
2 approved Base Fuel Component of 3.541 cents per kWh to its proposed Base Fuel
3 Component of 3.278 cents per kWh (“Proposed Factor”) beginning in January
4 2013. The Proposed Factor will allow the Company to recover its fuel costs for
5 the period of January 2013 through April 2014 as well as its projected under-
6 collected balance as of December 31, 2012, projected to be \$24,338,526 in its
7 updated forecast. The Company has also requested that it be allowed to charge
8 and accrue carrying costs monthly on amounts that exceed its forecasted under-
9 collected balance as of December 31, 2012 of \$24,338,526. This carrying cost
10 rate proposed by the Company would be equal to the 10-year United States
11 Treasury Bill rate plus 65 basis points.

12 **Q. IN REFERENCE TO THE COMPANY’S REQUEST TO LOWER ITS**
13 **BASE FUEL FACTOR, HAS ORS PERFORMED AN AUDIT OF THE**
14 **COMPANY’S BOOKS AND RECORDS AND A THOROUGH**
15 **EVALUATION OF ITS REQUEST?**

16 **A.** No. ORS has not performed a comprehensive evaluation or an audit of the
17 Company’s books and records associated with the Company’s request to lower its
18 base fuel factor. ORS will perform a complete audit and assessment of the review
19 period for the regularly scheduled 2013 fuel hearing.

20 **Q. WHAT ACTIONS DID ORS TAKE IN RESPONSE TO THE COMPANY’S**
21 **APPLICATION?**

1 A. ORS reviewed the Company's monthly fuel reports, fuel forecast data, and
2 current market trends for fuel. ORS also met with Company personnel to discuss
3 fuel forecasting and procurement.

4 **Q. DOES ORS HAVE ANY RECOMMENDATIONS REGARDING THE**
5 **COMPANY'S BASE FUEL FACTOR IN THIS PROCEEDING?**

6 A. Yes. ORS recommends that the Commission approve the Company's
7 Proposed Factor for service rendered on and after January 1, 2013. ORS
8 recommends that the Proposed Factor remain in effect for the period of January
9 2013 through April 2014 as shown in the Company's forecast. Additionally,
10 ORS recommends that the Company be allowed to collect carrying costs at a rate
11 equal to the 3-year United States Treasury Note, rather than the 10-year United
12 States Treasury Bill as proposed by SCE&G, plus 65 basis points on amounts that
13 exceed the Company's forecasted under-collected balance as of December 31,
14 2012 of \$24,338,526.

15 **Q. HAS THE COMPANY PROPOSED ANY CHANGES TO ITS**
16 **CURRENTLY APPROVED ENVIRONMENTAL FUEL COMPONENTS?**

17 A. No. The Company has not updated its forecast for variable environmental
18 costs, nor has it requested any change in its Application. ORS recommends that
19 the Company's environmental fuel components currently in effect remain in effect
20 until the decision in the Company's next annual review of base rates for fuel costs
21 in 2013. The decrease of the Company's base fuel component to 3.278 cents per
22 kWh does not include the environmental fuel components previously approved by
23 the Commission.

1 **Q. WHAT IMPACT WILL THE COMPANY'S REQUESTED FUEL FACTOR**
2 **HAVE ON THE TYPICAL RESIDENTIAL CUSTOMER'S MONTHLY**
3 **BILL?**

4 **A.** The fuel rate proposed by the Company will decrease the monthly bill of
5 the typical residential customer using 1,000 kWh by \$2.63.

6

7 **DEMAND SIDE MANAGEMENT RIDER**

8 **Q. HAS ORS REVIEWED THE COMPANY'S REQUEST TO UPDATE ITS**
9 **DSM RATE RIDER?**

10 **A.** Yes. The Company proposes to reduce its DSM Rate Rider to account for
11 net lost revenues associated with its DSM programs from October 1, 2010
12 through December 31, 2011, which will be recovered through the Company's
13 proposed base rates if approved. ORS found that the Company's proposal is
14 reasonable and is in accordance with prior Commission orders.

15 **Q. WHAT IMPACT WILL THE COMPANY'S UPDATED DSM RIDER**
16 **HAVE ON THE TYPICAL RESIDENTIAL CUSTOMER'S MONTHLY**
17 **BILL?**

18 **A.** The rate proposed by the Company will decrease the monthly bill of the
19 typical residential customer using 1,000 kWh by \$0.46.

20

CONCLUSION

Q. HAS ORS REVIEWED THE EFFECT OF THE COMPANY'S PROPOSED RATES ON THE TYPICAL RESIDENTIAL CUSTOMER'S MONTHLY BILL?

A. Yes. Exhibit MSH-3 shows the average monthly residential bill for 1,000 kWh consumption for both SCE&G's currently approved rates and those rates proposed in this proceeding. For comparison purposes, ORS has shown the same information for Duke Energy Carolinas, LLC ("Duke") and Progress Energy Carolinas, Inc ("Progress").

Q. WHAT IS THE NET EFFECT OF ORS'S ADJUSTMENTS AND RECOMMENDATIONS ON THE COMPANY'S APPLICATION ON THE TYPICAL RESIDENTIAL CUSTOMER'S MONTHLY BILL?

A. The monthly bill for the typical residential customer using 1,000 kWh will increase by approximately \$2.38 from \$135.06 to \$137.44.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

South Carolina Electric & Gas 2012 Rate Case Rate Design Summary

For the test year ended December 31, 2011

EXHIBIT MSH-1

Rate Class	Present Revenues Annualized (a)	ORS Proposed Base Rate Increase (b)	Pension Revenue Increase (c)	ORS Revenue Increase (b)+(c) (d)	Fuel Rate Decrease (e)	DSM/EE Rate Decrease (f)	ORS Net Increase (d)+(e)+(f) (g)	ORS Net Percent Increase (g) / (a) (h)
Residential Service	\$ 1,010,583,397	\$ 39,556,415	\$ 3,923,876	\$ 43,480,291	\$ (21,730,902)	\$ (3,539,182)	\$ 18,210,207	1.80%
Small General Service	\$ 405,602,874	\$ 10,139,627	\$ 1,658,265	\$ 11,797,892	\$ (8,805,721)	\$ (2,684,282)	\$ 307,889	0.08%
Medium General Service	\$ 240,243,477	\$ 7,990,288	\$ 1,236,502	\$ 9,226,790	\$ (6,376,469)	\$ (1,342,608)	\$ 1,507,713	0.63%
Large General Service	\$ 580,716,143	\$ 25,767,903	\$ 4,123,885	\$ 29,891,788	\$ (19,994,662)	\$ (199,167)	\$ 9,697,959	1.67%
Lighting	\$ 56,434,217	\$ 2,532,697	\$ 145,542	\$ 2,678,239	\$ (729,057)	\$ -	\$ 1,949,182	3.45%
Total Retail	\$ 2,293,580,108	\$ 85,986,931	\$ 11,088,069	\$ 97,075,000	\$ (57,636,810)	\$ (7,765,239)	\$ 31,672,950	1.38%

South Carolina Electric & Gas 2012 Rate Case

EXHIBIT MSH-2

Rate of Return by Class

For the test year ended December 31, 2011
(000's Omitted)

Rate Class	Before Increase				After Proposed Increase			
	ORS Pro Forma Ratebase	ORS Pro Forma Return	ROR	Relationship to Parity	ORS Pro Forma Ratebase	ORS Pro Forma Return	ROR	Relationship to Parity
Residential	\$ 2,439,092	\$ 161,003	6.60%	95%	\$ 2,439,092	\$ 187,786	7.70%	94%
Small General Service	\$ 862,311	\$ 77,050	8.94%	128%	\$ 862,311	\$ 84,381	9.79%	119%
Medium General Service	\$ 455,462	\$ 35,419	7.78%	112%	\$ 455,462	\$ 41,088	9.02%	110%
Large General Service	\$ 927,630	\$ 51,158	5.51%	79%	\$ 927,630	\$ 69,552	7.50%	91%
Lighting	\$ 158,058	\$ 12,629	7.99%	115%	\$ 158,058	\$ 14,279	9.03%	110%
Total Retail	\$ 4,842,553	\$ 337,259	6.96%	100%	\$ 4,842,553	\$ 397,086	8.20%	100%

South Carolina Electric & Gas 2012 Rate Case
Average Monthly Residential Bill for 1,000 kWh Consumption
For the test year ended December 31, 2011

EXHIBIT MSH-3

	Total Bill	Percentage Below SCE&G (Company Proposed) Bill
SCE&G (Rate 8) (Current)	\$ 135.06 ¹	
SCE&G (Rate 8) (Company Proposed)	\$ 141.73 ²	
Duke (Schedule RS)	\$ 99.51	42.4%
Progress (Schedule RES)	\$ 100.77	40.6%

¹ SCE&G bill includes the approved Rates for the BLRA increase effective October 30, 2012.

² SCE&G bill includes the approved Rates for the BLRA increase effective October 30, 2012, and the proposed Rate Case increase requested to be effective January 2013.